

## **Tax Advantages for Private Health Insurance Benefit**

Provincial public health insurance plans don't cover all medical expenses. Dental and vision care, prescription drugs and medical equipment, to name a few examples, are excluded. Fortunately, private health insurance plans can help cover the cost of these and other benefits. The federal government encourages employers to provide this coverage by offering some generous tax savings.

### **Premiums an employer pays for employees' plans**

Sole proprietorships, partnerships and corporations may deduct the entire cost for an employee's coverage, provided it's a reasonable business expense. Employees don't have to include the cost of coverage in their income,<sup>1</sup> nor the value of any benefits they receive.

### **Premiums a corporation pays for an employee/shareholder's coverage (and for his or her spouse and family members)**

The Canada Revenue Agency (CRA) presumes that employees/shareholders receive benefits such as private health insurance coverage because they are owners rather than employees. Therefore, while the corporation may still deduct reasonable premiums paid as business expenses, the shareholder/employee will have to include those premiums in income as a shareholder benefit.

A shareholder/employee may rebut the presumption by showing that his or her benefits are no more generous than those the employees receive, or are equivalent to those paid to non-shareholder employees performing similar duties for competing businesses. If they succeed, they need not include the premium expense or the value of any benefits they receive in income.

### **Premiums a self-employed person (sole proprietor or partner) pays for personal, spousal and family member coverage**

If your client has no employees, deductions are limited to \$1,500 each for the client, his or her spouse and family members over age 18, and \$750 for family members under age 18. Benefits are tax-free.

If your business has at least one employee who has been employed for at least three months, is unrelated to your client, and who receives no coverage, your client will not be able to deduct any health insurance premiums paid for his or herself, spouse and

family members. However, your client may be able to claim the premium cost as a medical expense, and benefits will be received tax-free.

If your business has employees who have been employed for at least three months and are unrelated to your client, the CRA has a complicated set of rules for determining deductibility. The details of those rules are beyond the scope of this article. However, the rules appear to reflect CRA's desire to encourage self-employed persons to provide high-quality coverage for themselves, their families, and their employees. The deductibility rules reduce deductibility if the employees' plan provides inferior coverage to what the self-employed person and his or her spouse and family members enjoy.

Current tax law provides generous incentives for your clients to provide high-quality private health insurance for themselves, their families, and employees. Have a discussion with your clients about private health insurance, and make sure your clients take advantage of all the tax relief they're entitled to.

The foregoing provides only an outline of tax deductibility for private health insurance. You will need to speak with their own tax and legal advisors.

***This article is intended to provide general information only. Be certain to seek advice from a qualified professional, including a thorough examination of his or her specific legal, accounting and tax situation. Any examples or illustrations used in this article have been included only to help clarify the information presented in this article, and should not be relied on.***